

Message Text

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XMB-02 OPIC-03 LAB-04 SIL-01 /160 W
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TREASURY DEPT WASHDC PRIORITY
INFO AMEMBASSY BONN
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MEMBASSY PARIS 2190
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TAGS: ECON, UK, EFIN, ENRG
SUBJECT: WHITE PAPER ON NORTH SEA OIL REVENUES

REF: LONDON 09155 - 1977

SUMMARY: AFTER A DELAY OF WELL OVER THREE MONTHS, THE
GOVERNMENT'S WHITE PAPER ON THE LONG-TERM USE OF NORTH SEA
OIL REVENUES HAS EMERGED AS A POTPOURRI OF GENERALITIES
WITH SOMETHING IN IT FOR EVERYONE. THE PRINCIPAL THEME
IS THE NEED TO AVOID DISSIPATING THE ADDITIONAL REVENUES
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THROUGH A SHORT-LIVED CONSUMER BOOM. DISCUSSION CENTERS
ON INVESTING IN INDUSTRY, IMPROVING INDUSTRIAL PERFOR-
MANCE, INVESTING IN ENERGY AND INCREASING ESSENTIAL SER-
VICES AS THE AREAS TOWARD WHICH NORTH SEA REVENUES SHOULD
BE CHANNELLED. THE WHITE PAPER REJECTS THE ESTABLISHMENT
OF A SEPARATE FUND FOR NORTH SEA REVENUES. RATHER, IT
STATES HMG'S INTENTION TO REPORT ANNUALLY TO PARLIAMENT

ON PROGRESS TOWARD ACHIEVING THE WHITE PAPER'S OBJECTIVES. LOOKED AT IN OVERALL TERMS, THE WHITE PAPER REPRESENTS A SETBACK FOR TONY BENN AND THOSE WHO ARGUED FORCEFULLY THAT FIRST PRIORITY ON ADDITIONAL REVENUES SHOULD BE INCREASED PUBLIC CONTROL OVER THE ECONOMY, BUT A SOLID ACHIEVEMENT FOR CALLAGHAN IN TERMS OF SATISFYING VARIOUS LABOR PARTY INTERESTS. END SUMMARY

1. AFTER DESCRIBING THE CURRENT ECONOMIC CONJUNCTURE IN THE U.K. AND STRESSING THE NEED TO "GET PRODUCTION MOVING AND TO REDUCE UNEMPLOYMENT,"THE WHITE PAPER STATES THAT NORTH SEA OIL "GIVES US A GREAT OPPORTUNITY TO ACHIEVE THIS." HOWEVER, IT ADDS THAT "OIL IS ONE ELEMENT IN WHAT MUST BE A CONTINUING AND LONG-TERM PROGRAM FOR NATIONAL RECOVERY. THE GOVERNMENT WILL PLACE INDUSTRIAL REGENERATION AND A PERMANENT RETURN TO FULL EMPLOYMENT AT THE HEART OF THIS PROGRAM."

2. THE WHITE PAPER ESTIMATES THE IMPACT OF NORTH SEA OIL REVENUES IN THREE WAYS. EACH ASSUMES THE REAL PRICE OF OIL REMAINS CONSTANT (1977 EQUALS 100):

- GNP WILL BE 4.5 BILLION POUNDS (1977 PRICES) --
MORE THAN 3 PERCENT IN TERMS OF PRESENT GNP --
HIGHER IN 1980. BY THE MID-1980'S THIS INCREMENT SHOULD BE ABOUT 6 BILLION POUNDS A YEAR;
- GOVERNMENT REVENUES WILL APPROACH 4 BILLION

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POUNDS A YEAR BY THE MID-1980'S (1977 PRICES);

- THE BALANCE OF PAYMENTS. ASSUMING THAT NEITHER THE EXCHANGE RATE NOR THE LEVEL OF DOMESTIC ACTIVITY IS AFFECTED, THE TOTAL BALANCE OF PAYMENTS WILL BE ABOUT 5.5 BILLION POUNDS (1977 PRICES) BETTER IN 1980, RISING TO 8 - 9 BILLION POUNDS IN THE MID-1980'S.

3. THE TEMPORARY NATURE OF THESE REVENUES AND THEIR SMALL MAGNITUDE RELATIVE TO GDP IS STRESSED. THE WHITE PAPER THEN SETS OUT THE GENERAL POLICIES TO CREATE CONDITIONS IN WHICH THE GOVERNMENT'S PLANS FOR NORTH SEA REVENUES CAN BEST BE ACHIEVED.

- ECONOMIC EXPANSION. THE WHITE PAPER CALLS ON OTHER COUNTRIES TO EXPAND, BUT EVEN IN THE ABSENCE OF A WORLD RECOVERY THE U.K. "CAN TAKE ADVANTAGE OF ITS IMPROVING ECONOMIC POSITION TO START EXPANDING THE ECONOMY.
- MAINTENANCE OF INTERNATIONAL COMPETITIVENESS. WITH UPWARD PRESSURE ON THE EXCHANGE RATES, INDUSTRIAL COSTS MUST BE KEPT DOWN AND INDUSTRIAL PERFORMANCE IMPROVED. "THE GOVERNMENT WILL DO

EVERYTHING IT CAN TO ENSURE THAT THE EXCHANGE
RATE LEAVES INDUSTRY COMPETITIVE IN TERMS OF
PRICE AND IS COMPATIBLE WITH THE AIM OF RETURN-
ING TO FULL EMPLOYMENT."

-- THE INDUSTRIAL STRATEGY WILL RECEIVE FULL HMG

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SUPPORT.

-- INDUSTRIAL DEMOCRACY. HMG WILL CONTINUE ITS EF-
FORTS TO PROMOTE INDUSTRIAL DEMOCRACY IN BOTH
PUBLIC AND PRIVATE SECTORS.
-- STABILITY OF ECONOMIC POLICIES IS ESSENTIAL.
-- EXTERNAL DEBT. "PROVIDED WE MAINTAIN A PROGRAM
OF REDUCING OUR NET INDEBTEDNESS, IT SHOULD BE
POSSIBLE TO EXTEND THE PERIOD OF REPAYMENT SUB-
STANTIALLY BE REFINANCING."

4. IN THE CONTEXT OF THESE POLICIES THE WHITE PAPER SETS OUT THE 4 AREAS TOWARD WHICH NORTH SEA REVENUES SHOULD BE CHANNELLED. THESE ARE:
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- INVESTMENT IN INDUSTRY. NORTH SEA REVENUES MAKE IT POSSIBLE TO SUSTAIN A MORE STABLE BUSINESS ENVIRONMENT, EXPAND DOMESTIC DEMAND, AND IMPROVE THE PROSPECTS OF HIGHER RATES OF RETURN. THESE CONDITIONS ARE ESSENTIAL TO PRIVATE SECTOR INVESTORS. IN THE PUBLIC SECTOR, NORTH SEA REVENUES WILL PERMIT INCREASED SELECTIVE ASSISTANCE TO INDUSTRY AND GREATER RESOURCES FOR THE NATIONAL ENTERPRISE BOARD;
- REGIONAL POLICY. THE NORTH SEA WILL GENERATE RESOURCES TO USE IN RESOLVING SCOTLAND'S DEEPEST SEATED ECONOMIC DIFFICULTIES. WALES AND NORTHERN IRELAND ARE ALSO MENTIONED. INFRASTRUCTURE IS TO BE IMPROVED IN THESE SPECIAL DEVELOPMENT AREAS.
- ENERGY. THE SECTION ON ENERGY PROVIDES FEW SPECIFICS AND NO DETAIL. IT STATES THE "MAIN NEED WILL BE FOR VERY SUBSTANTIAL INVESTMENTS IN CONVENTIONAL ENERGY SOURCES -- COAL, GAS, OIL AND NUCLEAR POWER." A "GROWING EXPENDITURE" IS NEEDED ON NEW AND UNCONVENTIONAL SOURCES, SUCH AS COAL GASIFICATION. "MORE EFFORT" CAN BE PUT INTO WORK ON SOFT ENERGY, BUT IT IS "UNLIKELY" THAT SUCH PROJECTS AS SOLAR, WAVE, TIDAL AND GEOTHERMAL "WILL PRODUCE VERY LARGE AMOUNTS OF ENERGY." FINALLY, THE ADVANTAGES OF ENERGY EFFICIENCY AND CONSERVATION ARE RECALLED; IT IS NOTED THAT PRICING POLICIES AND FISCAL ACTION "MAY WELL" BE NEEDED IN ADDITION TO PUBLIC INVESTMENT. IN SUM, THE ENERGY SECTION FAVORS ANYTHING BUT WASTE.
- TAX REDUCTIONS. THESE ARE MENTIONED IN THE CONTEXT OF IMPROVING WORK INCENTIVES, AND INCREASING REAL INCOME WITHOUT INFLATIONARY RISES IN MONEY WAGES.

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- PUBLIC EXPENDITURE AND INVESTMENT. THE WHITE PAPER ACKNOWLEDGES THAT A MORE EFFICIENT INDUSTRY IMPLIES FEWER JOBS IN MANUFACTURING. THEREFORE THE SERVICES SECTOR, INCLUDING PUBLIC SERVICES, WILL HAVE TO ABSORB GROWTH IN THE LABOR FORCE. IT STATES "THE GOVERNMENT INTENDS TO RETAIN A

FIRM CONTROL OVER PUBLIC EXPENDITURE SO THAT IT
DOES NOT ABSORB TOO HIGH A PROPORTION OF THE
NATION'S RESOURCES." IT ADDS THAT THERE ARE SOME
AREAS WHERE THE PUBLIC SECTOR COULD ABSORB NORTH
SEA REVENUES.

5. PRESS COMMENT WAS COMMENSURATE WITH THE ANTICLIMACTIC
NATURE OF THE WHITE PAPER. THE TORIES EMPHASIZED THE
IMPORTANCE OF CUTTING INCOME TAXATION AND NOTED THE AB-
SENCE OF A CLEAR SET OF PRIORITIES.

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6. COMMENT: THE WHITE PAPER GENERATED AN UNUSUAL AMOUNT
OF INFIGHTING, BOTH POLITICAL AND BUEARUCRATIC, WITHIN
THE GOVERNMENT. CALLAGHAN'S TASK, ACCORDINGLY, WAS TO
COME UP WITH A POLICY STATEMENT WHICH WOULD BE CONSISTENT
WITH LABOR'S BROAD COMMITMENT BOTH TO THE WELFARE STATE

AND INDUSTRIAL REGENERATION, SATISFY THE VARIOUS IDEOLOGICAL TENDENCIES WITHIN THE LABOR PARTY, RESPOND TO POPULAR EXPECTATIONS AND AVOID FORECLOSING TOO MANY OPTIONS. ON THAT BASIS, THE WHITE PAPER MAY BE JUDGED A SUCCESS.

7. WHILE THERE WAS NEVER MUCH DOUBT THAT THE "MODERATE" VIEW WOULD PREVAIL, LEFT-WINGERS LED BY TONY BENN FOUGHT LIMITED OFFICIAL USE

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DOGGEDLY TO HAVE THE REVENUES ISOLATED IN A SPECIAL FUND THAT WOULD BE USED TO FINANCE AN EXPANDED GOVERNMENT PRESENCE IN THE ECONOMY, A POINT OF VIEW THAT WAS SUPPORTED BY SOME CABINET MODERATES. CHANCELLOR HEALEY AND HM TREASURY WERE THE PRINCIPAL ANTAGONISTS TO THIS POSITION, AND THEY WON THE SUPPORT OF CALLAGHAN AND A CABINET MAJORITY. NOT SURPRISINGLY, THE MEDIA STRESSED THE LEFT/RIGHT CONFLICT ASPECT OF THIS BROKERING PROCESS. IN THE END, HOWEVER, THE PRINCIPAL DRAFTERS, HEALEY AND BENN, PRODUCED A PAPER THAT SATISFIED CALLAGHAN'S NEEDS AND PROVIDED SOMETHING FOR VIRTUALLY EVERY LABOR INTEREST GROUP. THE WHITE PAPER'S FAILURE TO SET OUT CLEAR PRIORITIES, UNDER THE CIRCUMSTANCES, WAS HARDLY SURPRISING. NORTH SEA REVENUES WILL NEVER BE MORE THAN A MARGINAL INCREMENT TO AVAILABLE RESOURCES. TO HAVE SET THEM APART FROM THE USUAL PROCESS OF RESOURCE ALLOCATION WOULD HAVE PRETENDED OTHERWISE.

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